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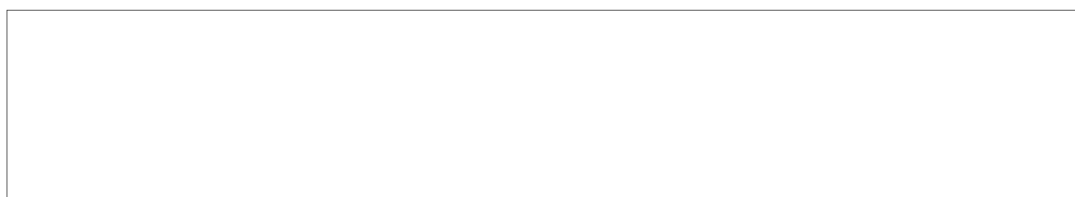
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USSR-CHINA: Second Round of Talks

The Soviets and the Chinese apparently expect little progress during the discussions beginning tomorrow in Moscow, but both sides will continue to seek ways to improve relations. [redacted]

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Chinese party leader Hu Yaobang told [redacted]

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[redacted] that he is not optimistic about making any breakthroughs in the talks, stating again that the Soviets first have to address some of China's security concerns. These include Soviet troops in Afghanistan, Moscow's support for Vietnam's occupation of Kampuchea, and the presence of Soviet military forces close to the Chinese border. In a recent press conference, Foreign Minister Wu said that China also would raise the issue of the possible transfer of SS-20s to the Soviet Far East. [redacted]

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Soviet Deputy Foreign Minister Kapitsa has told several Western diplomats that Moscow still believes the two sides will agree on confidence-building measures along the Sino-Soviet border. While other Soviet officials continue to hold out the possibility of troop cuts, Kapitsa has said that such decisions will be tied to the number of US troops in Japan and South Korea. Nonetheless, the Soviets have expressed new interest in resolving the border dispute. [redacted]

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Comment: Alexander Bovin, the *Izvestiya* correspondent with close ties to General Secretary Andropov, may have advanced new proposals when he met with Chinese Foreign Ministry officials in Beijing. The Soviets and the Chinese expect negotiations on the crucial security issues to be protracted. Both sides hope to make progress, however, in cultural or scientific and technical exchanges and other less important areas. [redacted]

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JAPAN-CHINA: Maintaining Close Ties

The recent visit to Beijing by Prime Minister Nakasone's special envoy gave both countries an opportunity to reaffirm their commitment to closer relations but also revealed China's uneasiness about Japan's defense policy and its policies toward South Korea and Taiwan. [redacted]

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Susumu Nikaido, Secretary General of the Liberal Democratic Party and a longtime promoter of good relations with China, visited Beijing from 18 to 21 February. His purpose was to reassure Chinese leaders that no basic changes in foreign policy have occurred under Nakasone, that Japan will continue to give great weight to relations with China, and that Tokyo's military effort will remain strictly limited. Nikaido emphasized that relations with the US are the foundation of Tokyo's foreign policy, and the Chinese reiterated support for strong Japanese-US ties. [redacted]

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The Chinese reaffirmed that they attach great importance to relations with Japan and were particularly enthusiastic about prospects for continued growth in bilateral trade. Beijing has asked for a new five-year yen credit worth \$5.6 billion to help finance 12 industrial projects. [redacted]

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Chinese leaders expressed concern that Japan's military buildup could threaten Asian neighbors. In addition, they told Nikaido that the large loans Japan recently agreed to give South Korea will undermine the stability of the Korean peninsula. The Chinese also warned that Japan should keep its contacts with Taiwan limited and strictly unofficial. [redacted]

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Comment: By sending a special envoy to China, Nakasone hoped to overcome any doubts in Beijing about his commitment to strengthening the bilateral relationship and to explain the outcomes of his visits to Seoul and Washington. The Chinese almost certainly were pleased by Nakasone's gesture, but their statements on Korea, Taiwan, and Japanese defense efforts put him on notice that they will be watching closely what he does on these issues. [redacted]

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INDONESIA: Economic Prospects Worsening

Falling oil prices, soft markets for raw material exports, and a potential shortfall in the rice harvest mean that Indonesia is headed for an even poorer economic performance this year than last year, when GNP growth fell below 4 percent. [redacted]

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The government has taken steps to reduce spending by cutting subsidies for fuel, food, and fertilizers, freezing government wages, and trimming other current outlays. Jakarta also is moving ahead with its ambitious industrial development program, although at a slower pace than originally planned. [redacted]

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Comment: Indonesia's weak export performance and the government's austerity program have not caused serious civil disturbances thus far. Nevertheless, price increases, scattered food shortages, and growing unemployment are intensifying pressure on the poor and could eventually lead to rioting, as has happened in the past. [redacted]

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The budget prepared for this year presumed that oil prices would not fall. A major decline in prices would force Jakarta to make far more stringent budget cuts. [redacted]

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Security officials are carefully watching the political opposition, as well as students, labor, and Muslims. Military and security forces would move quickly to suppress any public outbursts, particularly during the session early next month of the People's Consultative Assembly that will reelect President Soeharto to a fourth five-year term. [redacted]

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International bankers are becoming increasingly nervous about the absence of signs of export recovery, but they remain generally optimistic. The Indonesians are arranging to receive a \$1 billion loan, which will be the second-largest commercial credit ever obtained by an Asian borrower. According to a financial press report, lenders are willing to provide considerably more. [redacted]

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PORTUGAL: New Leadership for Social Democrats

Prime Minister Balsemao's replacement on Saturday as president of the ruling Social Democratic Party by more conservative leadership has reduced chances for a Socialist - Social Democratic coalition government after the elections on 25 April. [redacted]

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A triumvirate dominated by former Prime Minister Mota Pinto now heads the party. Balsemao's leftist allies did not oppose a leadership slate tabled by the Social Democrats' majority center and rightwing factions. The party also decided to break its electoral alliance with the smaller Center Democrats and run alone in the election. [redacted]

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Comment: The Social Democrats are unwilling to become junior partners in a coalition government with the frontrunning Socialists. To rule as "equals," the Social Democrats probably would have to come within 5 percentage points of the Socialists in the balloting. Unless Mota Pinto and the other members of the triumvirate emerge as forceful leaders during the campaign, however, serious setbacks for the Social Democrats are likely. [redacted]

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If such setbacks were matched by gains for the Socialist Party, it could form a stable majority government. The Social Democrats, however, probably will win enough seats to deny the Socialists a parliamentary majority--perhaps resulting in a weak minority Socialist government. [redacted]

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Special Analysis

PALESTINIANS: Results of National Council Meeting

The recent meeting of the Palestine National Council in Algiers strengthened PLO chief Arafat's personal leadership and gave him tacit authority to continue his efforts to secure a role in a US-sponsored Middle East peace process. Arafat probably will continue to move cautiously, however, because of doubts about US resolve and because of the importance he attaches to maintaining PLO unity. [redacted]

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Arafat and his followers dominated the sessions, despite the rhetoric of radical leaders. The delegates responded enthusiastically to a denunciation by Arafat's chief deputy of "Libyan and Syrian supporters" in the PLO--an explicit reference to the radical PLO groups. Radical leaders, while critical of many of Arafat's policies, were personally deferential toward him and did not oppose his reelection as PLO chairman. [redacted]

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The PLO chief expanded his already substantial majority in the 350-member Council by packing it with 29 new members, including 23 military officers from Fatah, the guerrilla group he leads. The addition of the new members strengthens Arafat's chances of obtaining the two-thirds majority he would need to push through policy changes on important questions. [redacted]

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Involvement in the Peace Process

Arafat did accommodate the radicals by agreeing to more restrictive language concerning the US peace initiative in the Council's political resolution than he would have preferred. The resolution "rejects considering this plan as a sound basis for the just and lasting solution" of the Palestinian issue. The failure to reject the proposal outright, however, seems to free Arafat to continue his efforts to link the PLO indirectly with a peace process under the general auspices of the US proposal. [redacted]

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Arafat's main political gains were winning the Council's endorsement of his acceptance of the Fez Summit proposals and approval of the concept of a special relationship between the Palestinians and Jordan. This relationship is to lead eventually to the establishment of a confederation between two independent states. [redacted]

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The endorsement of the Fez proposals puts the PLO on record as supporting negotiations as a means of advancing Palestinian political objectives. It links the PLO with the provision that implies willingness to recognize Israel's existence as part of a final Arab-Israeli settlement. Arafat compromised somewhat with the radicals by accepting language characterizing the Fez proposals as "minimum" demands that have to complement military action. [redacted]

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Arafat now has formal authority to continue his dialogue with King Hussein, which he had been pursuing largely on his own initiative. The Council's call for the establishment of a Palestinian state before confederation, however, limits Arafat's maneuverability in determining the terms of a PLO-Jordanian approach to negotiations. [redacted]

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Consensus and Unity

The meeting demonstrated the strong desire of both Arafat and his radical rivals to keep the PLO intact. Disputes over the wording of the political resolution were worked out in executive session to allow it to be adopted by acclamation at the final plenary session. [redacted]

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The stress on consensus, together with Arafat's conclusion that the US initiative is already stalled by Israel's obstructionism, reinforced his reluctance to push for more dramatic changes in PLO policies. This was particularly evident in his failure to ask the Council for authority to form a negotiating team composed of Jordanians and non-PLO Palestinians. Such a request would have caused another divisive debate, and Arafat had no confidence that a favorable outcome would have contributed to progress in the broader peace process. [redacted]

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Arafat reportedly believes that he extracted the maximum flexibility possible for his diplomatic efforts. By approving political links with Jordan and endorsing the Fez proposals, the Council went some distance in endorsing a strategy that would give the PLO a role in Middle East negotiations. It nevertheless refused to budge on the PLO's demand for Palestinian self-determination and the right to establish an independent Palestinian state.

[redacted]

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Prospects

For the near term, Arafat is free to continue his post-Beirut policy of drawing closer to Jordan as a means of gaining an indirect negotiating role without recognizing Israel. Over the next few weeks, however, he probably will take only incremental steps to strengthen ties to Jordan. He apparently feels no sense of urgency in the absence of progress toward an Israeli withdrawal from Lebanon or toward a halt in Israeli settlement activity in the West Bank.

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